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SUBJECT: (S/NF) ARGENTINA: WILL CRISTINA FINISH HER TERM?

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Classified By: CDA Tom Kelly for reasons b, d.

11. (S/NF) Summary/Introduction. The devastating setback dealt by Argentine voters to the government in the June 28 mid-term elections has restored to respectability last year's fashionable political forecast -- that Cristina Fernandez de Kirchner (CFK) will not reach the end of her term as President in 2011. Like last year, some of this conjecture is little more than wishful thinking by the government's opponents, but not all of it. The ruling couple's political weakness, erratic behavior, looming economic challenges, and Argentina's history of truncated presidential terms lead some serious observers to worry about the government's staying power. A larger group of observers, this Mission included, believe that CFK will probably make it to the end of her term, if only by muddling through (reftel). In this report, we evaluate the main arguments behind the proposition that the Fernandez de Kirchner government will fall and explain why we and others think that, at present, that scenario remains unlikely. End Summary/Introduction.

Kirchner Vulnerability: A New Phenomenon

12. (C) The Kirchners' political weakness is still a relatively new phenomenon, dating back to their mishandling of last year's farm protests. In the run-up to the October 2007 presidential elections, public approval ratings for outgoing President Nestor Kirchner (NK) went as high as 77%, as Argentines credited him for the country's remarkable economic recovery after its 2001-02 economic meltdown. Buoyed by her husband's popularity, Cristina Fernandez de Kirchner (CFK) easily won the presidency in the first round of the 2007 election. With 45% of the vote, she outdistanced her nearest opponent by more than twenty percentage points and doubled the vote received in 2003 by NK, who was then the little-known governor of remote Santa Cruz. The ruling couple's considerable political capital dissipated last year as a consequence of their confrontation with the farm sector. CFK and NK's plummeting poll numbers, their sudden inability to stay ahead of the curve, and their abandonment by many of their allies set the stage for a humiliating Senate defeat of government legislation that would have ratified the export tax increase at the heart of the controversy one year ago.

13. (S/NF) This political rout led to speculation in 2008 that CFK might fail to reach the end of her term -- which would make her the first elected Peronist president since the restoration of democracy in 1983 to meet that ignominious fate. We even spotted the graffitied question "Se Kae?" (roughly translated, "Kollapsing?") on a few Buenos Aires walls last year. Much of the speculation was fed by the government's most bitter opponents. Diego Guelar, a foreign policy advisor to Buenos Aires Mayor Mauricio Macri, told a visiting congressional staffer last August that "this

government won't last 60 days" -- just minutes after his boss had said that it would. But there was concern within government circles. A former aide to Buenos Aires Province Governor Daniel Scioli confided to us recently that he and other colleagues had urged Scioli to break ranks with the Kirchners last year over the farm controversy. Scioli said he wouldn't because "If I do, they'll fall, and I'm no coup monger." During the farm crisis, the MFA even took the unusual step of registering its concern with the Embassy. Foreign Minister Taiana's Chief of Staff Alberto D'Alotto (protect) told a Mission contact in May 2008 that the MFA was "very concerned" about the government's staying power.

The Prophets of Doom

¶4. (S/NF) In the end, the Kirchner government survived the farm crisis and made it into 2009. With its defeat in the June 28 mid-term election, the speculation has returned, though it has not reached last year's fever pitch. (A large majority of analysts do not/not feel that it is the most likely scenario.) Those who predict an early exit for the Kirchners tend to stress to varying degrees the following factors that, in their view, make a Kirchner collapse more likely:

-- Political: The Kirchners' opponents smell blood after the June 28 election and are waiting for the right moment to remove them, abetted by a public that abhors weak leaders;

-- Psychological: The Kirchner psychodrama is contributing to a series of bad decisions that will lead to the first couple's political demise; and

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-- Economic: The ruling couple's post-election turn to the left dooms them to botch an increasingly difficult economic situation, sweeping CFK from office.

Se Kae: Political Arguments and Scenarios

¶5. (C) There are some influential political analysts (Rosendo Fraga, and with less certainty, Manuel Mora y Araujo) who believe that this country's political volatility will cause CFK's fall from power. Mora y Araujo argues that Argentine society abhors weak political leadership. If Argentines sense that their ruler is enfeebled, he argues, they tend to collectively say "that's enough." The consequent withdrawal of support makes the damaged ruler vulnerable to overthrow by the scheming political class. The governor of Tierra del Fuego told the CDA that Argentines were "absolutists" in how they viewed politicians as either winners or losers, with no gray areas in between.

¶6. (C) Echoing a commonly heard refrain, pollster Doris Capurro adds that the Argentine press, particularly the dominant Clarin media group, often serves as "Coup Central." Clarin, she said, fomented Fernando de la Rúa's departure from power in 2001, and its owners are fierce critics of the Kirchners. For their part, most politicians have focused on jockeying for future position, but a few important ones sometimes seem to be circling prey. Civic Coalition leader Elisa Carrio said soon after the GOA's mid-term loss that "if Cristina doesn't react within a week, she's going to have problems governing." Along the same lines, Radical leader Gerardo Morales said a few days ago that "if the (current) dialogue falls apart, the Government will have so little margin for error that anything could happen." Over the weekend, dissident labor leader Luis Barrionuevo said plainly that "I see Julio Cobos finishing Cristina's term."

¶7. (SBU) Fraga argues that the history of Argentina's post-dictatorship democracy does not bode well for the Kirchners. Over that 25-year period, three elected

governments lost mid-terms. The two that were led by Radicals (Alfonsín in 1987 and de la Rúa in 2001) did not survive; the one headed by a Peronist (Menem in 1997) made it to the term's end. But Fraga thinks that the Kirchners should take little comfort from Menem's survival. Unlike the Kirchners, Menem never lost control of the Congress nor his hold over the Peronist party. Economist Carlos Melconian adds that in 1997 "the economy was doing fine, and economic policy remained on autopilot until the presidential elections two years later."

¶8. (C) Fraga thinks that the Kirchners will fail to change course, leading to the gradual deterioration of their already dire political situation. He pointed out that with Manuel Zelaya's overthrow in Honduras, CFK (with approval ratings around 28%) is now the elected Latin American president with the lowest popularity rating in her country. According to Fraga, the December 10 seating of the victors of the June 28 election will create a Congress with the power to remove CFK from office. (Note: Impeachment and removal from presidential office would actually require two-thirds support in each chamber of Congress, which the opposition -- even after December 10 -- will not have.) Fraga believes that Peronists and forces close to Vice President Julio Cobos will conspire to remove CFK from office to replace her with Cobos. Fraga describes the scenario as perfect for Peronists -- it removes the Kirchners from the scene, follows the Constitutional line of succession, and saddles Radical Cobos with the burden of taking the tough political decisions needed to govern Argentina in an economic downturn. For the non-Peronist opposition, the scenario seems less attractive -- a senior Radical politician has described it to us as a trap -- but Fraga maintains that the ambitious Vice President has already decided to accept power in such a circumstance.

¶9. (C) As for the Kirchners, Fraga claims that they (especially Nestor) may see this scenario as their best long-term bet if their political situation deteriorates further. They would portray CFK's forced removal from office, in this view, as an illegitimate usurpation of the democratic order, enabling them to escape to a sympathetic foreign country as democratic martyrs. They would then hope that the situation under Cobos would degenerate into political and economic chaos, helping to set the stage for their eventual political comeback. For Fraga, this strategy explains CFK's deep interest in the coup against Manuel Zelaya, which took place on the same weekend as her electoral setback. It also, he says, means that she will not resign, regardless of how bad the political situation.

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Psychodrama: Behavioral Arguments

¶10. (S/NF) Other observers stress psychological factors in their prediction of an impending democratic crisis. This school of thought has two variants: that strongman NK is too set in his uncompromising ways to adapt, or that he (or he and CFK) are becoming increasingly erratic and incapable of governing. As a well-connected banker told us, the Kirchners could recover by altering course and embracing a more moderate and consensus-driven course, but NK in particular is incapable of change. Instead, in this view, he will embark on a disastrous jeremiad against internal "traitors" whom he blames for the electoral defeat, leading the government off a cliff. In support of this view, Fraga argues that Nestor's personality "cannot change," but that Argentine public opinion has. It no longer wants an obdurate fighter as it did when NK took office in 2003; these days, Argentines want consensual leadership that the Kirchners cannot and will not provide.

¶11. (S/NF) According to the second variant, Nestor has indeed changed. In fact, he's gone crazy. Jorge Brito, once known as "Nestor's banker," seems to believe this theory,

confiding to the CDA that NK appears increasingly obsessive and disinclined to listen to advice. "He used to listen to me," Brito recalled, "but now he doesn't bother." Another banker told us that "Nestor has basically had a nervous breakdown."

Economic Arguments: Surf's Up

¶12. (SBU) Some economists and financial market participants stress that economic factors are most likely to lead to the Kirchners' downfall. In the words of economist Carlos Melconian (a Macri ally), "whenever Argentine governments that came out weakened from mid-term elections faced a deteriorating economic situation, the result was an economic policy that aimed at 'surfing' the economic waves. However, the surfing strategy may have to be aborted halfway: the economy may collapse before the date of the presidential elections, as was the case in the Alfonsín-Menem transition between 1987 and 1989." In other words, unless CFK's government raises its economic policy game, it may face the same bleak fate as the Alfonsín and de la Rúa governments.

¶13. (C/NF) But the prospects for more sensible economic policies seem slim, prompting some to suggest that the GOA will be overwhelmed by the economy's many problems. The GOA's economic policy team is an object of derision among serious economists here. Miguel Broda complains that "there's not a single serious macroeconomist on the whole Economy Ministry staff." Banker Brito described the GOA to us as "made up of people who can't even add or subtract." He was particularly scathing about Guillermo Moreno, the Internal Commerce Secretary who serves as NK's Interventionist in Chief, whom he called a "psychopath" who "thinks he's a genius" but "is as dumb as the rest of them." Mario Blejer, a former Central Bank chief and IMF Officer who reportedly turned down an offer to take over the Economy Ministry a few weeks ago, told the CDA that the problem is Nestor's control over GOA economic policy. According to Blejer, "Nestor knows nothing about economics, and to make matters worse, he thinks he does, so he doesn't listen to advice." This leads to an economic policy framework described by another former Central Bank president as "autistic."

¶14. (C/NF) These economy-focused pessimists disagree on what the precipitating cause of a government collapse might be. The financial community's leading bear, Deutsche Bank Argentina's president Marcelo Blanco, focuses on the possibility of another sovereign default, noting that the GOA faces several challenging payments in the near-term future, starting with more than US\$ two billion in "Boden 2012" payments that come due in August. (According to Blejer, another US\$10.5 billion in debt payments awaits the GOA in 2010.) Blanco told econoff that he thought there was a "high probability" that the economy will spin out of control post-election and the Kirchners will ultimately be unable to govern.

¶15. (C/NF) Political analyst Jorge Castro stresses the government's fiscal situation as the Kirchners' Achilles heel. The GOA, he argues, is ungovernable without a fiscal surplus. If the central government's fiscal accounts fall into deficit, he said, the government could collapse. The Kirchners, in particular, have relied on their discretionary

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control of federal revenue sharing to keep governors and mayors in line. If the GOA starts suffering cash flow problems, it could encounter political turbulence and have to contend with rebellious governors. Brito worries that radicalization of the regime's economic agenda could be the straw that breaks the camel's back. If NK pursues more radical economic measures, such as pursuing new nationalizations, he told us, the GOA's core of support would shrink from 30 to 15 percent of the population, setting the

stage for its abrupt demise. Another economist, Orlando Ferreres, suggests that in such a scenario the Peronists would be the ones who depose CFK, reasoning that "no one is more conservative than a frightened Peronist."

Why We Think CFK Will Make It to 2011

¶16. (C/NF) This recompilation of many arguments making the rounds about the durability of CFK's regime is not intended to create the impression that the government is doomed. At the Mission, we believe that CFK will remain president until December 2011, and that remains the opinion of most of our interlocutors here -- a motley crew that includes anti-Kirchneristas like Eduardo Duhalde and Mauricio Macri, press moguls like Clarin managing director Jose Aranda, and former Kirchner Cabinet chief Alberto Fernandez. We recently wrote a cable (reftel) on the reasons why we thought that a muddling-through scenario was most likely. Rather than recapitulating all of those arguments here, we outline the main political and economic factors supporting the contention that CFK will remain president until 2011.

¶17. (C/NF) Our best-connected contacts in the political establishment tell us that the focus is on the 2011 presidential election, not coup plotting. A key Macri aide tells us that the main contenders for the 2011 election -- his boss, Carlos Reutemann, and Hermes Binner, to name a few -- have predicated their planning on CFK making it to the end of her term. None find taking the reins at a time of economic crisis particularly appealing, and CFK's premature departure could undermine their respective strategies for making it to the Casa Rosada in 2011, when the economy should be stronger. The preferences of these frontrunners are critical, because in the wake of the June 28 elections, they influence other political actors.

¶18. (C/NF) To further complicate the lives of would-be coup plotters, CFK is a Peronist. The fractious Peronist establishment, though undoubtedly disgruntled with the Kirchners, is unlikely to end CFK's term if those efforts could redound to the benefit of non-Peronist politicians. Political analyst Mora y Araujo notes that, since 1983, Peronist presidents have proven far harder to dislodge from office before the end of their term than non-Peronists. We would also point out that the Kirchners' forte is tactical -- they are generally more nimble and adroit than their rivals and opponents. That said, NK is also a high-stakes gambler, often betting heavily on the element of surprise in dealing with his adversaries. Given his penchant for unpredictability, he could easily over-play his hand one of these days, and one of his "surprise" moves may backfire on him.

¶19. (C/NF) The fear factor also plays in CFK's favor. Opposition politicians from both the right (Mauricio Macri) and center-left (Radical leader Oscar Aguad) tell us that Argentines remember the chaos that followed Fernando de la Rúa's departure from office in December 2001, and are not anxious to repeat the experience. Macri told a visiting U.S. Senate staffer last year that Argentines would be "happy" for the Kirchners to fall ("if this glass of water was the Kirchners, everyone would fight to push it over") except for one thing -- they fear that the government's collapse would risk a return to bedlam. Argentines also seem impassive or unmoved by outrageous cases of corruption or other developments that elsewhere would have caused major scandals ("valijagate" comes to mind), making us wonder what it would take to get people into the streets.

Most Think that the Economy Won't Push CFK from Office

¶20. (C) Most of Argentina's best economists think that the economic situation will not force the Kirchners from office. Many post contacts believe that the peso exchange rate is a barometer for popular confidence in the government. The fact that the GOA has been able to manage a deliberate, controlled

devaluation of the peso for over eight months without a major run on the dollar, even after the June 28 electoral setback, argues for a stable outlook. The notion that the economy

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will bring the Kirchners down ultimately rests on the premise that the government will lack the funds to meet its internal and external obligations. For over two years we have been hearing dire forecasts of an impending, overwhelming fiscal crunch just around the corner. However, two of our best contacts -- Javier Alvarado, General Manager of BICE Bank, and Juan Carlos Barboza, the Central Bank's foreign exchange chief -- tell us with some confidence that the GOA will be able to meet its obligations. On the external debt payments front, both of them said independently that the GOA will have enough funds to meet debt payments in 2009 and 2010. They argue that 2010 will be easier than 2009 because no GDP warrant payment will come due (there is a big one in December 2009). The market, as measured by country risk ratings and bond indices, does not seem spooked.

¶21. (SBU) Our contacts also tell us that the GOA is unlikely to run out of money before CFK's term ends. A contact in the Economy Ministry's Finance Secretariat insists that the GOA will meet its 2009 financing needs from public sector resources (e.g., the recent nationalization of private pension funds, which gives the GOA a huge pile of money to work with); inflows from International Financial Institutions like the World Bank and IDB; and liability management (buybacks, exchanges, etc.).

¶22. (SBU) There is also room for adjustment on the expenditure side. Economist Daniel Marx notes that the government's decision to move the mid-term election to June 28 means that its pre-electoral spending spree was relatively brief this year, which will make it easier for the new Economy Minister Amado Boudou to reduce outlays for the balance of this year and next. Marx thinks that social spending and subsidies will plummet now that the election is over, easing fiscal pressure on the government (though he admits that other pressures, such as transfer payments to the provinces demanded by increasingly assertive and desperate governors, will increase).

¶23. (C/NF) Ultimately, popular support for, or tolerance of, the Kirchners rides on Argentines' relative sense of well-being. Barring another bout of hyper-inflation or government confiscation of savings or sudden uptick in unemployment, many Argentines are disinclined to rock the boat for now. Argentina is no stranger to nationwide general strikes that have paralyzed the country; it is a huge boon for the Kirchners that, for now, the bulk of organized labor (historically co-dependent on the Peronists) remains in their pockets.

¶24. (C/NF) Finally, time is probably on the Kirchners' side. Though the economy is currently in bad shape, Argentina's impressive human capital and natural resources will drive an eventual rebound. Argentina's debt levels are manageable, its return on capital high, and it enjoys several strong sectors (agriculture, mining, high tech) as well as a relatively competitive industrial sector and decent market size. This means that if the Kirchners make it to the middle of next year, with the external environment improving and some attractive presidential candidates in the mix for the 2011 race, the proximity of the post-Kirchner era may by itself reverse capital inflows and jump-start a robust recovery -- which paradoxically could significantly reduce the chances that CFK will be removed from office prematurely.

A Word on the Psychological Theory

¶25. (C/NF) As for the argument that the ruling couple's precarious psyches will lead to their fall from power,

suffice it to say that this argument is highly speculative and anecdotal. Few people maintain that the president and her husband, both well into their fifties, have changed much over the past two years. As Fraga notes, it is Argentina that has changed, not them. That seems like a good (partial) explanation for why the Kirchners fared poorly and misplayed their hand in the mid-terms, but it does not necessarily mean that it will prevent CFK from reaching the end of her term. After all, the Kirchners have been abrasive, impervious to outside advice, and even paranoid through more than six years of presidential power, and they're still in the Casa Rosada. As long as the political establishment remains focused on the next presidential race and the economy doesn't suffer a meltdown, we expect that's where the Kirchners will stay until December 2011.

KELLY